FRANKLIN TEMPLETON

Investing Now:
Daily conversations
on a changing economy

European perspectives on global trade, economic recession and technological shifts

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Recent trade policy shifts have sent shockwaves around the world. Franklin Templeton investment professionals explore the far-reaching implications of enhanced tariffs on the global economy and specific impact on Europe, China, India and emerging markets.

Key takeaways

- US tariff policies are likely to reduce global economic growth in the near term. We believe GDP growth in Europe and the United States is likely to be in the range of 0%–1% in 2025.
- Equity valuations around the world are not currently pricing in the effects of a sharp slowdown on earnings, and markets may remain volatile as earnings estimates decline.
- China is facing high US tariffs, but it may be able to offset some of the effects by stimulating its domestic economy. China's growth may slow, but it will likely continue to grow at a faster pace than the United States or Europe.
- India may be in a relatively favorable position: Its economy depends less on global growth, and it may be one of the first countries to reach a new US trade agreement.
- The weaker US dollar that has accompanied the tariff rollout is beneficial to Europe and emerging markets, easing inflation pressures and allowing central banks greater policy flexibility.
- Germany's new defense and infrastructure spending plans and an additional package expected from the European Union (EU) may help lift European growth in 2026 and beyond.
- The large debt issuance on the way to fuel Germany's spending is likely to push bond yields higher, and the European yield curve is likely to steepen. As debt grows, we believe the European Central Bank may cut interest rates more slowly than the market anticipates.
- The EU has shown restraint in responding to the tariffs. EU actions may focus more on regulatory and tax issues involving big US technology firms.
- We may see China and the EU negotiate to increase bilateral trade and investment.
- The tariff policy is signaling a shift away from globalization and over time may be more meaningful to changing global supply chains than the COVID-19 pandemic.
- Given the short-term inflationary potential of tariffs, the US central bank may need to keep interest rates higher than in other regions. US debt levels may constrain options for fiscal stimulus, putting US assets at a disadvantage on a relative basis.

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All investments involve risks, including possible loss of principal.

Equity securities are subject to price fluctuation and possible loss of principal.

Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. Changes in the credit rating of a bond, or in the credit rating or financial strength of a bond's issuer, insurer or guarantor, may affect the bond's value. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default.

The **allocation** of assets among different strategies, asset classes and investments may not prove beneficial or produce the desired results.

International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in **emerging markets**. The government's participation in the economy is still high and, therefore, **investments in China** will be subject to larger regulatory risk levels compared to many other countries.

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